

Sales Tax Reform Study Proposal 08.12

1. Describe your project idea, including clearly defining the problems and specific policy questions to be addressed.

Minnesota has two major revenue sources for general spending on the state level, the income tax and the sales tax. Minnesota's sales tax was established in 1967 and is still based today on the idea that retail purchases are the primary transaction to which the sales tax applies. As the economy in Minnesota and in the nation becomes more service-based, large sectors of economic activity are exempt from the sales tax. Even on a retail sales basis, Minnesota has always had a narrower sales tax base than most other states with sales tax exemptions for food, clothing and gasoline. Add this to exemptions on many services and Minnesota must apply a higher sales tax rate to what is taxed and still ends up with a more volatile base from which to budget from.

2. Why is this problem important?

Wild swings in revenue projections for the state could be curbed somewhat with a broader-based sales tax and funding for core state activities would be more consistent.

3. How could the Citizens League make a unique contribution?

The non-partisan reputation of the Citizens League would help get to the policy purposes behind good sales tax policy and avoid the traps that ideologues (whether real or perceived) bring to the discussion.

4. What are prospects that project would yield recommendations that could be implemented and have a major impact on the problem?

The prospects for impact are quite high. This is an issue that interests legislative leaders since they experience these swings every biennium.

5. Explain how this problem can be addressed by data, research, and reason? Identify probable sources for data and research.

There is a great amount of data and good research available on tax systems throughout the U.S. How changes in the sales tax base might impact the regressivity of the sales tax overall would be an interesting area to check for data.

6. Explain how this proposal can be framed without partisan bias.

The discussion of sales tax base expansion does not have to be about raising more revenue. Expanding the base and lowering the sales tax rate can be assessed to be as revenue-neutral as possible, which should leave us with a good discussion about what should and shouldn't be taxed according to good tax policy.

7. Why would this project be attractive to members?

Citizens League has a very robust history on tax policy and the fiscal impacts of how money is raised and spent. It might be more attractive to the core membership than newer members.

8. How would this project reach out to under-represented segments of the community?

Issues of sales tax fairness on a high-profile level should appeal to and hopefully attract those who are less-well represented.

9. What is the potential for making this issue visible to a broader public? Why?

Very high potential for visibility since there is legislative interest and the work would center around what people purchase and at what rate.

10. What resources—funding, experts, etc. might be available to support this project?